

**REPORT OF THE AUDIT OF THE  
ESTILL COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE ESTILL COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Estill County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Fund balances increased by \$22,209 from the beginning of the year, resulting in a cash surplus of \$257,955 as of June 30, 2002. However, this cash surplus does not reflect unpaid invoices for the General, Road, and Jail Funds totaling \$130,513.

#### **Debt Obligations:**

Total Kentucky Association of Counties Leasing Trust Agreements principal as of June 30, 2002, was \$301,000. Future principal and interest payments of \$374,254 are needed to meet these obligations.

Total bonded debt principal as of June 30, 2002, was \$195,000. Future collections of \$153,693 are needed over the next three years to pay all bonded debt principal and interest.

Total Kentucky Local Correctional Facilities Construction Authority lease and participation agreement principal as of June 30, 2002 was \$138,296. Future principal and interest payments of \$202,764 are needed to meet these obligations.

Capital lease principal agreements totaled \$187,428 as of June 30, 2002. Future principal and interest payments of \$202,125 are needed to meet these obligations.

#### **Report Comments:**

- The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures
- The Fiscal Court Should Adopt A Better System Of Internal Controls Over CSEPP Expenditures To Ensure Compliance With Grant Requirements
- The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen
- The Fiscal Court Should Pay Invoices When Due And Should Not Obligate Funds In Excess Of Revenue Sources
- The Fiscal Court Should Pay All Loans By The End Of The Fiscal Year They Are Issued
- The Fiscal Court Should Maintain A Bid File

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet  
Honorable Dwight Arvin, Former Estill County Judge/Executive  
Honorable Wallace Taylor, Estill County Judge/Executive  
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Estill County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Estill County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Estill County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2002, of Estill County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet  
Honorable Dwight Arvin, Former Estill County Judge/Executive  
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In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2003, on our consideration of Estill County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Estill County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures
- The Fiscal Court Should Adopt A Better System Of Internal Controls Over CSEPP Expenditures To Ensure Compliance With Grant Requirements
- The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen
- The Fiscal Court Should Pay Invoices When Due And Should Not Obligate Funds In Excess Of Revenue Sources
- The Fiscal Court Should Pay All Loans By The End Of The Fiscal Year They Are Issued
- The Fiscal Court Should Maintain A Bid File

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 29, 2003



ESTILL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Dwight Arvin	County Judge/Executive
Kevin Williams	Magistrate
Samuel Tipton	Magistrate
Robert Burns	Magistrate

**Other Elected Officials:**

Heather Combs	County Attorney
Wayne Abney	Jailer
Sherry Fox	County Clerk
Charlene Baker	Circuit Court Clerk
Gary L. Freeman	Sheriff
Tamara Dunaway	Property Valuation Administrator
John Toler	Coroner

**Appointed Personnel:**

Laura Ann Rogers	County Treasurer
Laura Ann Rogers	Occupational Tax Collector



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

ESTILL COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>			<u>Enterprise Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Jail Canteen</u>
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 55,221	\$ 143,049	\$	\$ 449
Restricted Cash- Public Properties Corporation Fund			59,397	
Total Assets	<u>\$ 55,221</u>	<u>\$ 143,049</u>	<u>\$ 59,397</u>	<u>\$ 449</u>
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Lease - KACO (Note 4)	\$ 301,000	\$	\$	\$
Bond Payments (Note 5)			135,603	
Jail Participation (Note 6)	\$ 138,296			
Capital Leases (Note 7)	187,428			
Note Payable (Note 8)	100,000			
Total Other Resources	<u>\$ 726,724</u>	<u>\$ 0</u>	<u>\$ 135,603</u>	<u>\$ 0</u>
Total Assets and Other Resources	<u><u>\$ 781,945</u></u>	<u><u>\$ 143,049</u></u>	<u><u>\$ 195,000</u></u>	<u><u>\$ 449</u></u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Totals  
(Memorandum Only)

\$ 198,719  
  
59,397  
  
\$ 258,116

\$ 301,000  
135,603  
138,296  
187,428  
100,000  
  
\$ 862,327  
  
\$ 1,120,443

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Debt Service	Enterprise
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease - KACO (Note 4)	\$ 301,000	\$	\$	\$
Public Properties Corporation				
Bond (Note 5)			195,000	
Jail Participation (Note 6)	138,296			
Capital Leases (Note 7)	187,428			
Note Payable (Note 8)	100,000			
Unpaid Obligations (Note 9)	130,513			
Payroll Liabilities	161			
Total Liabilities	<u>\$ 857,398</u>	<u>\$ 0</u>	<u>\$ 195,000</u>	<u>\$ 0</u>
<u>Equity</u>				
Fund Balances:				
Reserved	\$	\$ 143,049	\$	\$ 449
Unreserved	(75,453)			
Total Equity	<u>\$ (75,453)</u>	<u>\$ 143,049</u>	<u>\$ 0</u>	<u>\$ 449</u>
Total Liabilities and Equity	<u>\$ 781,945</u>	<u>\$ 143,049</u>	<u>\$ 195,000</u>	<u>\$ 449</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY  
ARISING FROM CASH TRANSACTIONS  
June 30, 2002  
(Continued)

Totals  
(Memorandum Only)

\$	301,000
	195,000
	138,296
	187,428
	100,000
	130,513
	<u>161</u>
\$	<u>1,052,398</u>

\$	143,498
	<u>(75,453)</u>
\$	<u>68,045</u>
\$	<u><u>1,120,443</u></u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ESTILL COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,432,274	\$ 823,639	\$ 107,627	\$ 49,671
Receipts - Jail Canteen				
Other Financing Sources:				
Transfers In	130,000	60,000	244,100	5,000
Borrowed Money	100,000			
Lease-Purchase Proceeds	90,693			
Interest Earned				
Total Cash Receipts	<u>\$ 1,752,967</u>	<u>\$ 883,639</u>	<u>\$ 351,727</u>	<u>\$ 54,671</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,363,888	\$ 609,257	\$ 350,352	\$ 55,327
Expenditures - Jail Canteen				
Other Financing Uses:				
Transfers Out	309,100	196,119		5,000
Bonds:				
Principal Paid				
Interest Paid				
Jail Participation - Principal			6,738	
Capital Leases - Principal	79,950	76,835		
Total Cash Disbursements	<u>\$ 1,752,938</u>	<u>\$ 882,211</u>	<u>\$ 357,090</u>	<u>\$ 60,327</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 29	\$ 1,428	\$ (5,363)	\$ (5,656)
Cash Balance - July 1, 2001	20,238	30,427	5,292	6,427
Added Prior Year Voided Checks	75	1,039	1,124	
Cash Balance - June 30, 2002	<u>\$ 20,342</u>	<u>\$ 32,894</u>	<u>\$ 1,053</u>	<u>\$ 771</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

<u>Special Revenue Fund Type</u>		<u>Debt Service Fund Type</u>	<u>Enterprise Fund Type</u>	
<u>CSEPP Fund</u>	<u>State Grant Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Jail Canteen Fund</u>	<u>Totals (Memorandum Only)</u>
\$ 373,615	\$ 354,865	\$	\$ 3,128	\$ 3,141,691
				3,128
		71,119		510,219
				100,000
				90,693
		1,394		1,394
<u>\$ 373,615</u>	<u>\$ 354,865</u>	<u>\$ 72,513</u>	<u>\$ 3,128</u>	<u>\$ 3,847,125</u>
\$ 350,341	\$ 348,283	\$	\$ 2,704	\$ 3,077,448
				2,704
				510,219
		60,000		60,000
		13,260		13,260
				6,738
				156,785
<u>\$ 350,341</u>	<u>\$ 348,283</u>	<u>\$ 73,260</u>	<u>\$ 2,704</u>	<u>\$ 3,827,154</u>
\$ 23,274	\$ 6,582	\$ (747)	\$ 424	\$ 19,971
64,677	48,516	60,144	25	235,746
				2,238
<u>\$ 87,951</u>	<u>\$ 55,098</u>	<u>\$ 59,397</u>	<u>\$ 449</u>	<u>\$ 257,955</u>

The accompanying notes are an integral part of the financial statements.

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Estill County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Estill County Public Properties Corporation as part of the reporting entity.

The Estill County Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists of fiscal court members and the debt service payments rely upon transfers from the County's funds. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the fiscal court.

Additional - Estill County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Estill County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Estill County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund.

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Estill County Special Revenue Fund Type includes the following county funds: The CSEPP Fund and the State Grant Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Estill County Enterprise Fund Type includes the jail canteen account, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures should be for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Estill County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Estill County Fiscal Court: Estill County Industrial Development Authority, Estill County Water District, and the Estill County Library.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Kentucky Association of Counties Leasing Trust Agreement

A. Enrichment Center

Estill County Fiscal Court entered into a leasing agreement with the Kentucky Association of Counties Leasing Trust for the purpose of construction of a county Enrichment Center. The amount of the lease principal was \$285,000 plus interest at 5.43 percent, plus administrative fees, credit fees, and fiduciary fees. The principal is paid annually and the interest is paid monthly over a 10-year period. The balance of the lease trust as of June 30, 2002 was \$181,000 as shown below:

Fiscal Year Ended		
June 30	Interest	Principal
2003	\$ 10,890	\$ 14,000
2004	9,994	15,000
2005	9,035	16,000
2006	8,015	17,000
2007	6,932	18,000
2008-2012	16,967	101,000
Totals	<u>\$ 61,833</u>	<u>\$ 181,000</u>

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 4. Kentucky Association of Counties Leasing Trust Agreement (Continued)

B. Equipment

Estill County entered into a leasing trust agreement with the Kentucky Association of Counties Leasing Trust for the purpose of purchasing equipment. The amount of the lease principal was \$173,000 plus interest at 5.2 percent, plus administrative fees, credit fees, and fiduciary fees. The principal is paid annually and the interest is paid monthly over a 10-year period. The final lease payment on the equipment was made in FY 2002.

C. Fire Station

On July 20, 2001, the county entered into a lease agreement with the Kentucky Association of Counties for the construction of a Fire Station. The terms of the agreement stipulate a 5-year repayment schedule. The principal is paid annually and the interest with administrative fees, credit fees, and fiduciary fees is paid monthly over the term of the lease. As of June 30, 2002, the principal balance outstanding was \$120,000. Debt service requirements for fiscal years ending June 30, 2003, and thereafter are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 4,850	\$ 30,000
2004	3,574	30,000
2005	2,190	30,000
2006	807	30,000
Totals	<u>\$ 11,421</u>	<u>\$ 120,000</u>

Total Kentucky Association of Counties Leasing Trust Agreements as of June 30, 2002 was \$301,000.

Note 5. Long Term Debt

The County is liable for the following bonds issued by the Estill County Public Properties Corporation dated August 5, 1996, in the amount of \$585,000. Principal is payable annually on August 1, and interest is payable semiannually on February 1 and August 1. Debt Service requirements are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 9,840	\$ 60,000
2004	6,150	65,000
2005	2,100	70,000
Totals	<u>\$ 18,090</u>	<u>\$ 195,000</u>

Total bonded debt principal as of June 30, 2002, was \$195,000.



ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 6. Long Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds in the amount of \$206,362 for the purpose of reconstruction of the jail facility. The fiscal court subsequently entered into a lease and participation agreement with KLCFCA for \$206,362 principal plus interest on the issue. Debt service requirements are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 8,542	\$ 7,165
2004	8,073	7,620
2005	7,575	8,103
2006	7,045	8,617
2007	6,481	9,162
2008-2012	22,616	55,303
2013-2015	4,136	42,326
Totals	<u>\$ 64,468</u>	<u>\$ 138,296</u>

Total lease and participation agreement principal as of June 30, 2002, was \$138,296.

Note 7. Capital Leases

A. Dump Truck

On November 8, 1999, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of a dump truck. Terms of the agreement stipulate a 4-year repayment schedule with annual payments of \$21,813 with one payment due in advance. As of June 30, 2002, the principal balance outstanding was \$21,187. Debt service requirements for fiscal year ending June 30, 2003, is as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 626	\$ 21,187
Totals	<u>\$ 626</u>	<u>\$ 21,187</u>

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 7. Capital Leases (Continued)

B. Sheriff Cruiser

On November 8, 1999, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of a sheriff cruiser. Terms of the agreement stipulate a 4-year repayment schedule with annual payments of \$5,567 with one payment due in advance. As of June 30, 2002, the principal balance outstanding was \$5,407. Debt service requirements for fiscal year ending June 30, 2003, is as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 160	\$ 5,407
Totals	<u>\$ 160</u>	<u>\$ 5,407</u>

C. Voting Machines

On December 6, 2000, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of voting machines. Terms of the agreement stipulate a 3-year repayment schedule with annual payments of \$27,149. As of June 30, 2002, the principal balance outstanding was \$25,899. Debt service requirements for fiscal year ending June 30, 2003, is as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 1,250	\$ 25,899
Totals	<u>\$ 1,250</u>	<u>\$ 25,899</u>

D. Ford F-450 Truck

On April 12, 1999, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of a Ford F-450 truck. Terms of the agreement stipulate a 3-year repayment schedule with annual payments of \$10,746. The final lease payment on the F-450 truck was made in FY 2002.

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 7. Capital Leases (Continued)

E. Paver

On June 20, 2001, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of a paver. Terms of the agreement stipulate a 3-year repayment schedule with annual payments of \$20,074 on August 1 of each year. As of June 30, 2002, the principal balance outstanding was \$38,986. Debt service requirements for fiscal years ending June 30, 2003, and thereafter are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 1,077	\$ 18,997
2004	85	19,989
Totals	<u>\$ 1,162</u>	<u>\$ 38,986</u>

F. 911 Equipment

On July 30, 2001, the county entered into a lease agreement with Community Bank of Louisiana for the purchase of 911 equipment. Terms of the agreement stipulate a 3-year repayment schedule with monthly principal and interest payments at a 5% interest rate. As of June 30, 2002, the principal balance outstanding was \$42,499. Debt service requirements for fiscal years ending June 30, 2003, and thereafter are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 1,709	\$ 18,301
2004	773	19,237
2005	41	4,961
Totals	<u>\$ 2,523</u>	<u>\$ 42,499</u>

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 7. Capital Leases (Continued)

G. Case Backhoe

On June 27, 2002, the county entered into a lease agreement with Farmers Bank and Trust (Leasing One) for the purchase of a Case backhoe. Terms of the agreement stipulate a 5-year repayment schedule with annual payments of \$12,485. As of June 30, 2002, the principal balance outstanding was \$53,450. Debt service requirements for fiscal years ending June 30, 2003, and thereafter are as follows:

Fiscal Year Ended June 30	Interest	Principal
2003	\$ 2,857	\$ 9,628
2004	2,821	9,664
2005	2,007	10,478
2006	1,124	11,361
2007	167	12,319
Totals	<u>\$ 8,976</u>	<u>\$ 53,450</u>

Total capital lease principal agreements as of June 30, 2002, was \$187,428.

Note 8. Note Payable - HVAC System

On April 4, 2002, the county entered into a loan agreement with BB&T, formally Area Bank, for the installation of a new HVAC system. Terms of the loan agreement stipulate a 5-year repayment schedule with monthly principal and interest payments of \$1,967. The note is a variable interest rate loan, thus changes in the interest rate will effect the term of the loan since the monthly payment will remain the same. The As of June 30, 2002, the principal balance outstanding was \$100,000.

Note 9. Unpaid Obligations

Unpaid obligations represent commitments made as of June 30, 2002, that have not been paid. The following table summarizes unpaid obligations for the General, Road and Jail funds:

	General Fund	Road Fund	Jail Fund
County's Unadjusted Cash Balance as of June 30, 2002	\$ 20,342	\$ 32,894	\$ 1,053
Unpaid Obligations as of June 30, 2002	<u>(65,327)</u>	<u>(56,915)</u>	<u>(8,271)</u>
Adjusted June 30, Ending Cash Balance	<u>(44,985)</u>	<u>(24,021)</u>	<u>(7,218)</u>

ESTILL COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 10. Subsequent Events

- A. On February 28, 2003, the County entered into a lease agreement with National City Bank through KACO in the amount of \$495,000. The County entered the lease agreement to pay off outstanding bills the County owed and to increase the County's operating cash flow.
- B. On October 4, 2002, the County originally entered into a loan agreement with BB&T for \$100,000. The loan agreement was later amended on February 24, 2003, to reduce the amount to \$75,000.
- C. On September 4, 2003, the County entered into a lease agreement with BB&T for \$81,900 for the purchase of fire trucks.
- D. In June of 2003, the County closed the jail and then later re-opened it in September of 2003.

Note 11. Insurance

For the fiscal year ended June 30, 2002, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





ESTILL COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Type</u>			
General Fund	\$ 1,491,004	\$ 1,432,274	\$ (58,730)
Road and Bridge Fund	855,030	823,639	(31,391)
Jail Fund	116,494	107,627	(8,867)
Local Government Economic Assistance Fund	56,295	49,671	(6,624)
<u>Special Revenue Fund Type</u>			
CSEPP Fund	434,595	373,615	(60,980)
State Grant Fund	430,000	354,865	(75,135)
Totals	<u>\$ 3,383,418</u>	<u>\$ 3,141,691</u>	<u>\$ (241,727)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,383,418
Add: Budgeted Prior Year Surplus			355,674
Add: Budgeted Borrowed Money Received			250,000
Less: Other Financing Uses			<u>(234,642)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,754,450</u>

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SCHEDULE OF OPERATING REVENUE



ESTILL COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Revenue Categories</u>	<u>GOVERNMENTAL FUND TYPES</u>		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 822,219	\$ 822,219	\$
In Lieu Tax Payments	17,631	17,631	
Excess Fees	42,412	42,412	
Intergovernmental Revenues	1,968,914	1,277,341	691,573
Charges for Services	200,504	200,504	
Miscellaneous Revenues	88,596	51,689	36,907
Interest Earned	1,415	1,415	
Total Operating Revenue	<u>\$ 3,141,691</u>	<u>\$ 2,413,211</u>	<u>\$ 728,480</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES





ESTILL COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 667,425	\$ 647,550	\$ 19,875
Protection to Persons and Property	725,719	693,817	31,902
General Health and Sanitation	34,924	33,806	1,118
Social Services	41,000	36,464	4,536
Roads	683,981	574,111	109,870
Debt Service	29,255	28,305	950
Capital Projects	156,432		156,432
Administration	427,603	364,771	62,832
Total Operating Budget - General Fund Type	\$ 2,766,339	\$ 2,378,824	\$ 387,515
Other Financing Uses:			
Transfers to Public Properties			
Corporation Fund-			
Principal	60,000	60,000	
Interest	11,119	11,119	
Jail Participation Agreement -			
Principal on Lease	6,738	6,738	
Capital Lease Agreements -			
Principal on Leases	156,785	156,785	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 3,000,981</u>	<u>\$ 2,613,466</u>	<u>\$ 387,515</u>

ESTILL COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 526,492	\$ 359,440	\$ 167,052
Capital Projects	448,516	327,033	121,483
Administration	13,103	12,151	952
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 988,111</u>	<u>\$ 698,624</u>	<u>\$ 289,487</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet  
Honorable Dwight Arvin, Former Estill County Judge/Executive  
Honorable Wallace Taylor, Estill County Judge/Executive  
Members of the Estill County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Estill County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Estill County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Pay Invoices When Due And Should Not Obligate Funds In Excess Of Revenue Sources
- The Fiscal Court Should Pay All Loans By The End Of The Fiscal Year They Are Issued
- The Fiscal Court Should Maintain A Bid File

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estill County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Estill County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures
- The Fiscal Court Should Adopt A Better System Of Internal Controls Over CSEPP Expenditures To Ensure Compliance With Grant Requirements
- The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses:

- The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures
- The Fiscal Court Should Adopt A Better System Of Internal Controls Over CSEPP Expenditures To Ensure Compliance With Grant Requirements
- The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 29, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133







**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
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Honorable Wallace Taylor, Estill County Judge/Executive  
Members of the Estill County Fiscal Court

**Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Estill County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Estill County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Estill County's management. Our responsibility is to express an opinion on Estill County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Estill County's compliance with those requirements.

In our opinion, Estill County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Internal Control Over Compliance

The management of Estill County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Estill County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 29, 2003

## FINDINGS AND QUESTIONED COSTS



ESTILL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Estill County.
2. Three reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. All of the conditions are reported as material weaknesses.
3. Three instances of noncompliance material to the financial statements of Estill County were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal awards programs.
5. The auditor's report on compliance for the audit of the major federal awards programs for Estill County expresses an unqualified opinion.
6. No findings relative to the major federal awards programs for Estill County are reported in Part C of this schedule.
7. The program tested as a major program was: Chemical Stockpile Emergency Preparedness Program, CFDA #83.549
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Estill County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

**Reference Number 2002-1**

The Fiscal Court Should Implement Stronger Internal Controls Over Expenditures

During the course of our engagement, we noted the following internal control weaknesses:

- The Treasurer did not co-sign all checks
- An encumbrance list was not maintained
- Purchase orders, when utilized, were not matched with invoices upon payment

In order to strengthen internal controls, we recommend that the Treasurer co-sign all checks, an encumbrance list be maintained and that purchase orders be matched with invoices upon payment.

ESTILL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

REPORTABLE CONDITIONS (Continued)

**Reference Number 2002-2**

The Fiscal Court Should Adopt A Better System Of Internal Controls Over CSEPP Expenditures To Ensure Compliance With Grant Requirements

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During the course of our engagement, we noted the following problems relating to CSEPP.

- The County could not readily provide all the original invoices selected for testing for expenditures of Federal CSEPP Funds.
- CSEPP checks, written for payroll related items, were not signed by the County Treasurer.
- The Fiscal Court did not approve CSEPP expenditures.
- Two expenditures were paid directly to the Finance Officer for administrative costs. These expenditures should not have been paid directly to the Finance Officer and should have been paid through the County payroll revolving account since the Finance Officer is a regular employee of the County. These expenditures were not supported by timesheets or any other documentation.

We recommend the County adopt a better system of internal controls over CSEPP expenditures.

**Reference Number 2002-3**

The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen

Our audit revealed that required financial reports and accounting records are not being maintained for the Jail Canteen. Specifically noted was the absence of receipts and disbursements journals, daily check-out sheets, timely bank deposits, bank reconciliations, financial statements (monthly and yearly), and adequate supporting documentation for expenditures. KRS 441.135 states, "The jailer may maintain a canteen fund for the benefit of the prisoners lodged in the jail and may assign such jail employees and prisoners to operate the canteen as are necessary for efficient operation. All profits from the canteen shall be used for the benefit or recreation of the prisoners. The jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account." The state local finance officer pursuant to KRS 68.210 has prescribed the minimum and report standards required. These are to be utilized by county jailers for jail commissary funds maintained pursuant to KRS 441.135. The account and reporting standards are as follows:

- Daily Check-Out Sheets
- Jail Commissary Receipts Journal
- Jail Commissary Disbursements Journal
- Jail Commissary Summary and Reconciliation (Monthly and Yearly)
- Bank Reconciliation

ESTILL COUNTY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For The Fiscal Year Ended June 30, 2002  
 (Continued)

REPORTABLE CONDITIONS (Continued)

**Reference Number 2002-3 (Continued)**

The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen (Continued)

KRS 67.080 gives the fiscal court the authority to "...cause correct accounts and records to be kept of all receipts and disbursements of the public funds of the county." We recommend the fiscal court require the jailer to maintain complete and accurate records of the financial activity of the Jail Canteen and prepare and submit the required financial reports. We also recommend that the Jail Canteen expenditures be supported by adequate documentation and be exclusively for the benefit or recreation of the prisoners.

NONCOMPLIANCES

**Reference Number 2002-4**

The Fiscal Court Should Pay Invoices When Due And Should Not Obligate Funds In Excess Of Revenue Sources

During the course of our engagement, we noted the following problems relating to expenditures:

- Numerous invoices throughout the fiscal year that were not paid in full for goods or services received from vendors.
- As of June 30, 2002, invoices totaling \$130,513 for the General, Road and Jail Funds were not paid because the county did not have sufficient revenues to cover the expenditures. This resulted in the following deficit fund balances:

	General Fund	Road Fund	Jail Fund
County's Unadjusted Cash Balance as of June 30, 2002	\$ 20,342	\$ 32,894	\$ 1,053
Unpaid Obligations as of June 30, 2002	<u>(65,327)</u>	<u>(56,915)</u>	<u>(8,271)</u>
Adjusted June 30, Ending Cash Balance	<u>(44,985)</u>	<u>(24,021)</u>	<u>(7,218)</u>

KRS 65.140 states that unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. KRS 68.110 states that the fiscal court shall not in any year expend money in excess of the amount annually levied and collected for that year. We recommend that all members of the fiscal court monitor the financial transactions of the county to ensure compliance with KRS 65.140 that requires invoices to be paid within thirty working days. Furthermore, we recommend that the practice of obligating funds by ordering goods and services when adequate cash is not available to cover the expenditure cease.

ESTILL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Fiscal Year Ended June 30, 2002  
(Continued)

NONCOMPLIANCES (Continued)

**Reference Number 2002-5**

The Fiscal Court Should Pay All Loans By The End Of The Fiscal Year They Are Issued

The Fiscal Court did not pay a loan for a HVAC system in full by June 30, 2002. KRS 65.7707 states, notes payable shall mature on a date determined by the governing body, which shall be no later than the last day of the fiscal year in which the notes are issued. We recommend the Fiscal Court pay any and all loans in full by the end of the fiscal year they are issued.

**Reference Number 2002-6**

The Fiscal Court Should Maintain A Bid File

During the course of our engagement, the Fiscal Court could not locate the bid file. Thus, we could not determine if expenditures greater than \$20,000 were properly bid. We recommend that a bid file be maintained by the Fiscal Court.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Fiscal Court Should Require Improved Accounting Procedures For The Jail Canteen - This comment has not been corrected and is repeated in the current year.
- The Fiscal Court Should Require The Jailer To Properly Collect And Account For Home Incarceration Fees - Based on available information, this appears to have been corrected as of the present time.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM  
AUDIT

None.



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



ESTILL COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Chemical Stockpile Emergency Preparedness Program (CFDA #83.549)	M-02183697	\$ 350,340
Disaster and Emergency Assistance Grants - Coordinator Salary (CFDA #83.503)	Not Available	<u>5,470</u>
Total U.S. Federal Emergency Management Agency		<u>\$ 355,810</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 355,810</u></u>

ESTILL COUNTY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Estill County, Kentucky and is presented on the modified cash basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM


ESTILL COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2002

**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**ESTILL COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2002

The Estill County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Dwight Arvin  
Former County Judge/Executive

  
Laura Ann Rogers  
County Treasurer

